Defining Critical Success Factors for Medical Fitness Centers

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One of the most common questions we encounter as consultants to hospital administrators and medical fitness center directors is “what are successful medical fitness centers doing differently than those that are not successful?”

With more than 25 years of experience working with medical fitness centers across the country, the Principals at Meritage Healthcare Strategies have first-hand knowledge of what it takes to properly plan, develop and operate a successful medical fitness center.

Defining Success

Before we discuss some of these factors, it is important to first recognize that “success” can be defined several different ways depending on the goals and objectives of the center and can change over time to coincide with changes that occur within the healthcare industry or within a particular organization. Some of the key objectives for the first medical fitness centers that opened in the late 1970’s through the mid 1980’s included:

- Providing transition or “step down” programs for physical therapy and cardiac rehab programs
- Providing health and fitness programs for employees and medical staff
- Improving the health of the community served
- Enhancing the image of the hospital

Notice that objectives relative to financial performance were not mentioned. This is because many of the healthcare systems that operated these earlier centers viewed them solely as an ancillary or complementary service, and felt that any losses that the fitness center might incur would be easily covered by the system’s core business (clinical services) and would be justified by the goodwill and image they provided in their communities.

In the early 1990s, hospitals were also struggling to predict the impact of managed care on their business. Many assumed a fully capitated environment was around the corner. This would mean it was in the best financial interest of hospitals to keep people well, and medical fitness centers were an attractive option for reaching that goal. However, that environment never developed and the Balanced Budget Act of 1997 cut or froze reimbursement for many services provided under Medicare, having a significant adverse impact on the financial status of the healthcare industry, and creating a whole new set of objectives for medical fitness centers—to make money.

Some of the new centers that opened during this period of time were able to meet the new financial objectives, but unfortunately some older centers were not able to implement the necessary changes and were subsequently closed or sold to local operators in order to remove a “loss leader” from the system.

Most medical fitness centers that have opened since 2000 have, in addition to programmatic, operational, and integration goals, a fundamental and overriding objective to provide a positive return on investment to its parent organization.
Critical Success Factors

With these objectives in mind, we have identified several common factors that many of the most successful centers exhibit and that we believe are critical to the successful development and operation of a medical fitness center today.

1. **Commitment “At the Top.”** Almost without exception, the most successful centers were initially envisioned by the CEO, the President, or an influential board member of the health system or hospital. Having the full support and resources of the leading executives encourages cooperation and commitment within the rest of the organization. Without this commitment at the top, the project will most likely not get off the ground, but even if it does, can suffer greatly due to a lack of support within the entire organization.

2. **Qualified Professional Staff.** Second only to “leadership at the top,” having the right kind of staff is the most important factor for long term success. The general public has a higher expectation of quality and professionalism in a medically affiliated fitness center and therefore will expect the staff to be trained, experienced and able to understand and accommodate any unique needs and health conditions they might have relative to their personal wellness/fitness program. While the expense of providing a quality staff can be higher than that found at non-medical fitness centers, the difference can be more than made up through higher membership volumes, retention rates and customer satisfaction. The bottom line is that members expect a quality staff in a medical fitness center and the successful centers meet those expectations.

3. **Plan Then Proceed.** This point is almost too obvious to mention but we must because it is still too often overlooked. Proper research and planning on the front end of the development of a new center can significantly reduce the amount of money that would have been unnecessarily spent on facility and operational costs down the road. Such things as clarifying the vision, understanding the goals and objectives, knowing how success will be defined and measured, and defining market potential and needs, are a few of the critical elements of a comprehensive feasibility analysis that should be conducted prior to any decision to proceed with the development of a new wellness center. Unfortunately, there are still some healthcare systems that have the “build it and they will come” mentality when it comes to developing a new wellness center. Adopting this philosophy is an almost guaranteed formula for failure.

4. **Location, Location, Location.** The real estate industry has always stated that location is the most important variable to consider relative to placing a value on a piece of property. The retail industry also considers location as one of the most important variables relative to the success of their respective businesses. Fitness centers are no exception. For instance, we know that approximately 80 percent of fitness center members reside within 10 to 12 minutes of the center and that accessing the center needs to be “hassle free.” Nevertheless, hospitals are notorious for placing their medical fitness centers in existing buildings or on available land on their campuses even when the surrounding market demographics are not favorable for fitness membership. Although there are some very successful medical fitness centers located on hospital campuses, most of those are also conveniently located in favorable demographic market areas and provide easy and convenient access to the center. The location of a medical fitness center should be driven primarily by the market conditions surrounding a particular site whether it is on or off a hospital campus.
5. **Right Size – Right Cost.** Sometimes our dreams are bigger than our pocket books. Designing a fitness center too large can place an unnecessary burden on facility overhead costs (i.e., rent, utilities, housekeeping, and maintenance), while designing a center too small can cause overcrowding in critical programmatic areas or the elimination of key programs areas altogether which can lead to customer dissatisfaction, higher attrition and low membership volume. That is why it is critically important to properly identify all programmatic components, amenities and services areas required for a new center and then allocate the proper size for each based on projected volumes and usage patterns. However, even if the correct size of the center is determined, designing and building a center that is more expensive than the market will support can be devastating to the financial success of the center. Then again, having a center that is unattractive and impractical will also negatively impact the success of the center. Striking the right balance between right size and right costs for the facility is critical.

6. **Program to Match Needs.** A fundamental principal of success for most businesses is “finding out what the market needs and meeting that need.” That principal certainly applies to the fitness industry as well. It is critical to understand the demographic composition of the market area served by a wellness center and then offer programs that will match it. For instance, if the primary market area is largely senior adults, then children’s programming will not be very effective. Additionally, a center located near the central business district of a city that has urban townhouses, condominiums and apartments is probably not going to do as well with family programming since these residences are primarily occupied by young professionals, singles, and “empty nesters.” Understanding the demographic profile of the potential membership is critically important in determining the programs the center should provide. Unfortunately, there are still too many centers designed and programmed based on “gut intuition” of what members might want or based on what the hospital wants to offer rather than on market driven facts.

7. **Effective Integration.** One of the most significant differentiators of medical fitness centers when compared to “traditional” health clubs is the presence and integration of clinical programs and services within the center. Most often these services include outpatient physical therapy, cardiac rehabilitation, pulmonary therapy and complementary or alternative medical services. In an integrated environment, patients, members and staff have the opportunity to “co-exist” in the same, or immediately adjacent, areas within the center thus providing a greater opportunity for a “seamless” overlap and transition between the clinical and fitness programs and services provided within the overall center. Effective integration can result in a reduction of space and equipment requirements, increase referrals between the programs and promote higher customer satisfaction.

8. **Right Price – Minimal Discounts.** A common mistake of many medical fitness centers is feeling like the hospital must charge rates lower than the competition and provide steep discounts to many membership categories. Conversely, charging more than the market will accept or can afford for the types of services provided by the center will not be successful. Successful centers base their membership rates and program fees on what the market will support knowing that members are willing to pay a fair price for quality and value. Offering an occasional discount on enrollment fees or a particular product or service is appropriate, but steeply discounting membership dues and program fees can lead to poor financial performance. In addition, discounting
membership fees is sometimes used as an easy “fall back” strategy to boast membership volume instead of focusing on improving programs and services, customer service, marketing strategies and operational management. Once entrenched, the “culture” of discounting is difficult to change. Therefore, it is critical to determine the right price points up front in the planning process and discount sparingly and strategically.

9. Commitment to Marketing and Sales. All too often, healthcare organizations fall into the trap of thinking that having their good name and reputation as a leading healthcare provider in the community and “word of mouth” are all that is required. However, marketing and selling memberships in a fitness center is significantly different than simply building overall brand and image awareness which is understandably a primary goal of most hospital marketing departments. A fitness center is a different and unique type of business that requires ongoing marketing and promotions in order to motivate, attract and maintain a consistent flow of new member prospects. Appropriate marketing and sales strategies and techniques must be of high quality and professionally implemented, and must begin prior to opening the doors while the center is still under construction. Meeting pre-opening sales goals is critical to the short- and long-term financial success of the center. Increasing the number of members beyond opening day and replacing members who choose to leave the center is a continuous challenge that must be met; therefore it is important to plan and implement ongoing marketing and sales activities. Cutting back on marketing and sales expenditures might provide a short term savings but can also cause significant long term negative financial implications.

10. Commitment to Outstanding Customer Service. A fine restaurant is not only known for the excellent food it provides but also by the way it is served, and a Five Star hotel or resort is not only known by its beautiful facilities and surroundings, but also by the excellent service provided by the staff. Having a beautiful fitness facility with “state of the art” equipment in the perfect location with qualified professional staffing can fail if it does not also provide outstanding, personable and caring service to its members and patients. Again, this begins at the top of the organization and must be modeled by the fitness center director. His or her example sets the tone throughout the rest of the center. Hiring individuals who have a natural desire and personality to serve others is critically important for those positions that come in constant contact with members and guests. In addition, in order to provide quality customer service requires an ongoing commitment to staff training, reinforcement and recognition by management.

11. Measure, Manage and Measure Again. Leaders of successful centers are keenly aware of how their center is performing in a variety of areas on an ongoing basis and therefore are able to make better, more informed and timely decisions. These centers closely follow a formal set of policies and procedures for data collection, maintenance and reporting. Unfortunately, many medical fitness centers operate on limited information either because they have not set up appropriate measurement policies and procedures and/or are limited by the information provided by their parent organization. Quality membership and financial management tools and resources exist and should be utilized in order to accurately collect, maintain and report the operational and financial performance of a center. Failing to measure the performance of a center will significantly inhibit the ability to manage the center effectively. The adage, “you can’t
manage effectively what you don’t measure accurately” certainly applies to the fitness industry.

12. Effective Communications with Members. The average medical fitness center has over 180,000 member visits each year and some large centers have twice that many visits or more. This constant flow of community members through a facility represents many opportunities to have an impact on the health of the community, to build the hospital’s brand, create loyalty, launch new service lines, and promote the healthcare system’s physicians and programs. Informative, well-timed communication with members helps the members as well as the health system, and is key to creating valuable bridges between the members and the health system. Poor communications with members can create confusion and promote ill will on the part of the members that carries over into the overall perception of the health system.

While it is challenging and time consuming to focus attention on each of these factors for success, centers with the dedication and focus on important details are much more likely to meet and exceed financial and other metrics for success.

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Meritage Healthcare Strategies can help you evaluate and maximize your opportunity and implement practices that will help ensure the ongoing success of your medical fitness center including:

- **Concept Development and Feasibility** – Includes establishing the vision and finalizing the concept for the project in addition to setting objectives for success. The process also involves estimating member volumes, size and space planning requirements, identifying programs and services to be included, recommending pricing strategies and assessing financial feasibility.

- **Facilities Development** – Includes assistance with identifying financing/funding for the new center, selecting key contractors and negotiating on behalf of hospital, overseeing the creation of the architectural design for the facilities, assisting with leasing activities as may be required and providing overall project management.

- **Operational Development and Management** – Includes creating a comprehensive business plan to include financial projections and budgets, finalizing the programmatic and operational requirements of the center, developing a staffing model and selecting the key personnel for the fitness center, providing a strategic plan for marketing the new center, managing project activities leading up to opening day and beyond, conducting operational reviews of existing centers, and providing management oversight to ensure project viability.